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United States General Accounting Office  
Washington, DC 20548

Accounting and Information  
Management Division

B-285749

August 15, 2000

The Honorable William V. Roth, Jr.  
Chairman, Committee on Finance  
United States Senate

**DISTRIBUTION STATEMENT A**  
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Subject: Analysis of the Administration's Proposal to Ensure Solvency of the United Mine Workers of America Combined Benefit Fund

Dear Mr. Chairman:

In your March 9, 2000, letter you asked us to review the administration's proposal to ensure the solvency of the United Mine Workers of America (UMWA) Combined Benefit Fund. Specifically, you asked that we analyze the impact of the administration's proposal to (1) extend the Abandoned Mine Land Reclamation (AML) fees, (2) reverse the effects of *National Coal v. Chater (National Coal)*, (3) reverse the effects of *Dixie Fuel Company v. Social Security Administration (Dixie Fuel)*, and (4) appropriate federal funds. In addition, you asked that we provide some general background information on the operations, governance structure, benefit structure, and historical and projected financial position of the Fund.

As you know, in 1992, more than 100,000 UMWA retirees and their dependents were in danger of losing their health benefits. The Congress responded by enacting the Coal Industry Retiree Health Benefit Act (P.L. 102-486), which established the Combined Benefit Fund (Fund<sup>1</sup>) to pay these health benefits. More recently, the Fund has been experiencing financial difficulties due to rising costs and a financing mechanism that has been negatively affected by recent court decisions. In November 1999, the Congress responded to the Fund's financial difficulties by appropriating to the Fund \$68 million in interest from the AML Fund in the Consolidated Appropriations Act for Fiscal Year 2000 (P.L. 106-113).

To provide the information you requested and address your specific questions, we (1) interviewed fund officials and other affected parties, (2) examined applicable statutes and regulations, and (3) reviewed the Fund's audited financial statements and actuarial projections. We did not independently verify underlying data or

<sup>1</sup>The Fund is a multi-employer plan as defined by the Financial Accounting Standards Board in Financial Accounting Standard (FAS) 106 and has annual audits by independent auditors, which include actuarial projections of the Fund's unfunded liability.

compute actuarial projections. As part of our work, we contacted independent actuaries to review actuarial projections and assumptions for reasonableness. We obtained oral comments on a draft of our briefing slides from UMWA officials. Their comments have been incorporated where appropriate.

We conducted our work from March 2000 through June 2000 in accordance with generally accepted government auditing standards. On June 28, 2000, we briefed your staff on the results of our work. The purpose of this letter is to summarize the information provided at the briefing. The detailed briefing slides are enclosed.

### **Results in Brief**

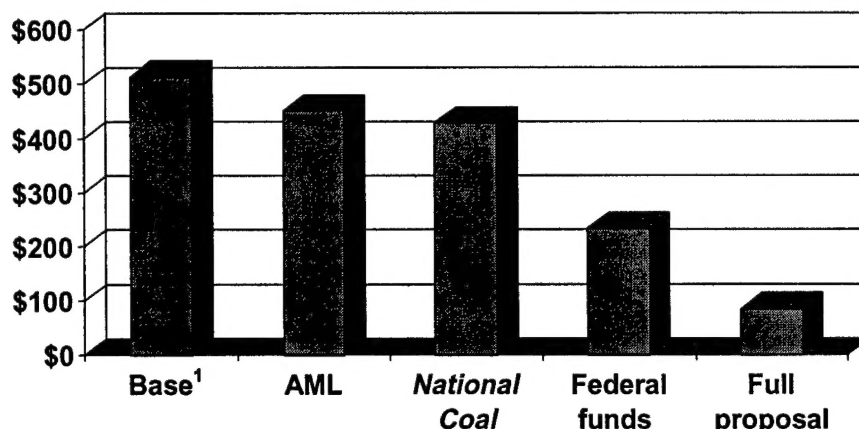
If the administration's proposal is not adopted, the federal government potentially would have to provide \$513 million over the next 8 years to ensure the Fund's solvency through 2008, assuming that the *Dixie Fuel* decision is not implemented. However, if the *Dixie Fuel* decision is implemented, the Fund may have to refund an estimated net \$57 million in premiums to coal companies and would have to find funding for 10,000 additional unassigned beneficiaries. Although an estimate of the cost has not yet been developed, nationwide implementation of the *Dixie Fuel* decision would increase the Fund's projected deficit.

According to our review of available financial data, while the administration's proposal improves the projected financial position of the Fund, reducing the fiscal year 2008 anticipated cumulative deficit, not including borrowing costs,<sup>2</sup> from \$513 million to \$83 million, it does not ensure the solvency of the Fund. Additional funds will be needed to ensure the solvency of the Fund. Figure 1 shows a comparison of the potential cumulative deficits in fiscal year 2008 if individual provisions of the proposal were enacted and if the entire proposal was enacted.

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<sup>2</sup>The actuarial projection estimates the year 2008 accumulated deficit to be \$614 million, which includes \$101 million in borrowing costs.

**Figure 1: Comparison of Potential Cumulative Deficits in Fiscal Year 2008 Under Various Provisions of the Administration's Proposal (Dollars in Millions)**



<sup>1</sup>Base represents the cumulative deficit if none of the provisions of the proposal are enacted.

### **Background**

The Coal Industry Retiree Health Benefit Act established the Fund as of February 1, 1993, by merging two existing UMWA retiree health benefit trusts. The act also established a financing mechanism for the Fund by assessing annual premiums on certain coal companies (and in some cases successor companies) that signed coal wage agreements with UMWA in 1988 or in prior years and are either still in the coal business or in any other business. In addition, the act (1) mandated that up to \$70 million per year in interest from the fees in the AML Fund could be used to defray medical premiums of those beneficiaries who could not be assigned to an employing coal company and (2) required the transfer of \$210 million from the 1950 Pension Trust Fund to provide initial funding. The act instructed the Social Security Administration (SSA) to assign retired miners and dependents to responsible companies before October 1, 1993.

The Fund's operations are overseen by a seven member Board of Trustees, comprised of (1) two individuals designated by UMWA, (2) one individual designated by the Bituminous Coal Operators Association (BCOA), (3) one individual designated by the three employers who were not signatories to the 1988 National Bituminous Coal Wage Agreement and have the largest number of assigned beneficiaries, and (4) three individuals agreed to by the four designated trustees.

The Commissioner of SSA determines premiums as prescribed by the act, using (1) a base premium, calculated using the expenses, federal reimbursements, and beneficiary population of the plan year ending June 30, 1992, and (2) the change in the medical component of the Consumer Price Index (CPI) between the base year and the year being calculated. According to Fund officials, the population is declining at an average rate of 7 percent per year. As of June 30, 1999, there were approximately 67,000 beneficiaries covered by the Fund. Eighty-one percent of the Fund's beneficiaries are over the age of 70, 72 percent are female, 91 percent are

covered under Medicare, and over 60 percent live in Kentucky, West Virginia, and Pennsylvania.

The Fund offers its beneficiaries comprehensive health care coverage including physician services, durable medical supplies, prescription medications, home health services, inpatient hospital services, mental health treatment, preventive care, surgery, treatment of illness or injury, and certain other benefits.

The Fund's September 30, 1999, audited financial statements show a \$12.2 million cumulative deficit. In November 1999, the Congress appropriated an additional \$68 million in interest from the AML Fund to allow the Fund to meet its fiscal year 2000 commitments. Due to that appropriation, the Fund is expected to have a positive fund balance of approximately \$1 million at September 30, 2000.

### **Analysis of the Impact of the Administration's Proposal**

The administration's legislative proposal includes provisions for (1) extension of the assessment of AML fees, (2) a change in the calculation of premiums to reverse the effects of the *National Coal* decision, (3) preventing the *Dixie Fuel* decision from affecting the Fund, and (4) a transfer of general revenue to the Fund. This legislation was designed to continue the reclamation of abandoned coal mines, in addition to maintaining health benefits for retired coal miners and their families who are beneficiaries under the Coal Act of 1992.

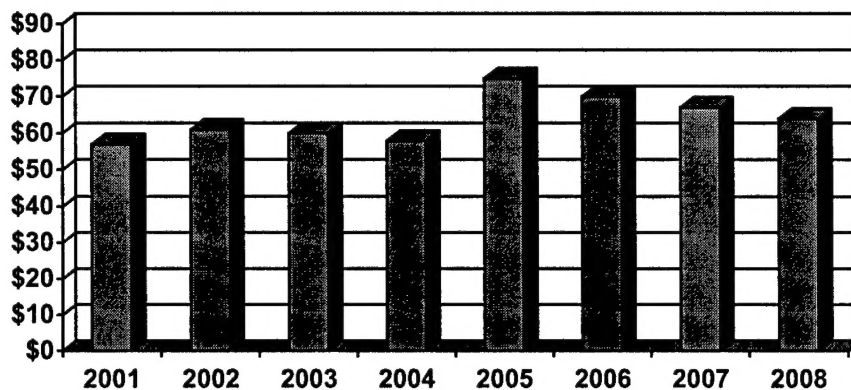
An actuarial projection<sup>3</sup> of the Fund dated April 10, 2000, predicts an accumulated deficit<sup>4</sup> of approximately \$513 million by the end of fiscal year 2008, exclusive of borrowing costs. Projected operating annual shortfalls (excess of annual expenses over income) through fiscal year 2008 range from \$57 million to \$75 million, as indicated in figure 2.

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<sup>3</sup>The actuarial projections were developed by King Associates, who were engaged by the Board of Trustees of the Fund to assist in the projection of long-term income and expenses.

<sup>4</sup>The actuarial projections of the Fund assume that the Fund will borrow if income is insufficient to pay expenses and incur borrowing costs. We eliminated these costs from our analysis as the purpose of the administration's proposal is to eliminate possible shortfalls.

**Figure 2: Projected Operating Shortfalls With No Changes in Current Funding Sources (Dollars in Millions)**



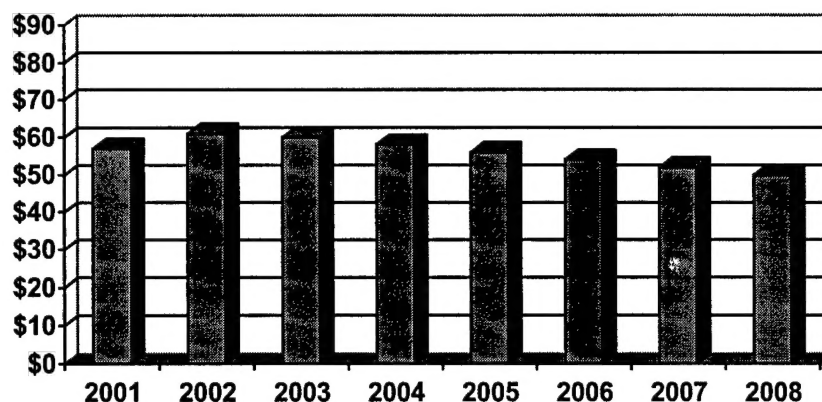
#### Extension of the Assessment of AML Fees

The administration is proposing to extend the AML<sup>5</sup> fees through September 30, 2014, which would potentially have a positive impact on the Fund's solvency. AML funds its reclamation programs with fees paid by coal companies on each ton of coal mined. Funds that are not used immediately are invested in government securities and earn interest. The Coal Act authorizes the use of interest earned on AML fees to pay medical expenses and offset health premiums of beneficiaries who are not assigned to a coal company. Currently, the AML Fund generates average annual interest of \$61.8 million and as of May 2000, there was \$227 million of accumulated interest. AML fees are scheduled to expire on September 30, 2004. The Fund has received an average of \$47 million annually from the AML Fund from fiscal year 1996 through fiscal year 1999.

According to the proposal, the current AML fee structure would be maintained, and there are no proposed changes in the statutory limitations on the use of AML interest by the Fund. Our analysis indicates that the extension of AML fee collection would potentially decrease the projected accumulated deficit in fiscal year 2008 from \$513 million to \$450 million. The projected annual operating shortfalls of the Fund if AML fee collection is extended is shown in figure 3.

<sup>5</sup>AML fee collection, authorized by the Surface Mining Control and Reclamation Act of 1997, provides for restoration of lands mined and abandoned prior to August 3, 1977.

Figure 3: Potential Operating Shortfalls of the Fund if AML Fee Collection Is Extended (Dollars in Millions)



#### Reverse the Effects of the *National Coal* Decision

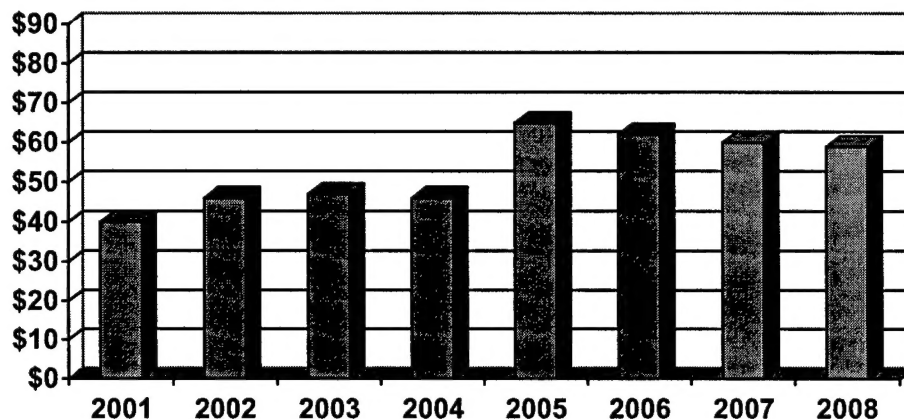
*National Coal Association v. Chater* (1996) concerned the calculation of health benefit premiums by the Commissioner of SSA. The 11th Circuit Court of Appeals ruled that SSA improperly accounted for Medicare reimbursements in health benefit premium calculations. As a result, all coal company health benefit premiums were reduced by approximately 10 percent.

The administration's proposal to reverse the effect of the *National Coal* decision by changing the calculation of the annual premiums in the Coal Act should have a positive impact on the Fund's solvency. The proposal sets a premium amount and year to serve as the base for future premium schedule calculations as follows: (1) base year premium is \$2,791.42 and (2) base year is the plan year beginning October 1, 1999. The proposed formula for the calculation of the annual premium is "base year premium *multiplied by* [the current year medical component of the CPI *minus* the base year medical component of the CPI]."

Our analysis indicates that, by itself, the change in the premium formula will potentially reduce the projected accumulated deficit in fiscal year 2008 from \$513 million to \$427 million. The positive effect of the change in the calculation of premiums diminishes over time because premium income diminishes as the number of beneficiaries decreases. The potential annual operating shortfalls of the Fund through fiscal year 2008, if the proposal's provision to reverse the effect of the *National Coal* decision is enacted, are presented in figure 4. In addition, as you requested, we considered the effect of enacting both the AML fee extension and the reversal of the effects of the *National Coal* decision. If both provisions were enacted, the projected cumulative deficit in fiscal year 2008 would decrease from \$513 million to \$364 million.



Figure 4: Potential Operating Shortfalls of the Fund if the Administration's Proposal to Reverse the Effect of the *National Coal Decision* Is Enacted (Dollars in Millions)



#### Prevent the *Dixie Fuel* Decision from Affecting the Fund

*Dixie Fuel Company v. Social Security Administration* (1999) concerned the right of the Commissioner of SSA to make assignments of beneficiaries to coal companies after September 30, 1993, the date given in the Coal Act. The 6th Circuit Court of Appeals ruled that assignments of beneficiaries made after September 30, 1993, were invalid. This ruling has not yet been implemented and is still the subject of litigation. If implemented, the ruling could potentially affect 247 coal companies and 10,000 beneficiaries.

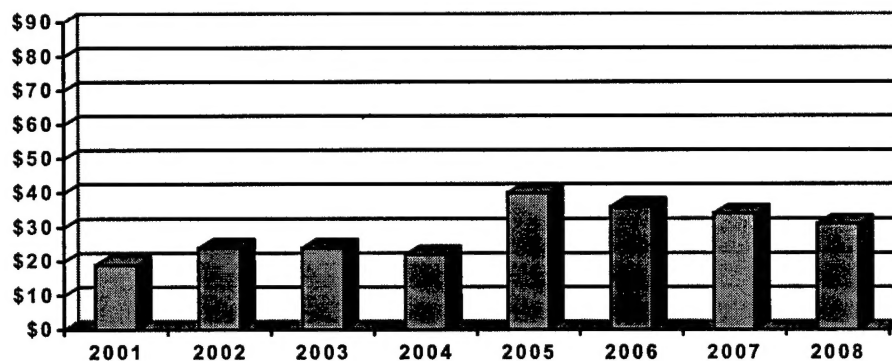
The administration is also proposing legislation to eliminate the potential effects of the *Dixie Fuel* decision. The proposal would amend the Internal Revenue Code to eliminate the deadline of October 1, 1993, and thereby grant SSA authority to assign beneficiaries at any time. This authority would be retroactive to when the relevant Internal Revenue Code provision was enacted by the Coal Act. As previously discussed, the *Dixie Fuel* decision, which has not yet been implemented and is still the subject of litigation, could negate approximately 10,000 beneficiary assignments (of 247 coal companies), and result in an increased need for AML interest to cover the medical costs of these newly reclassified unassigned beneficiaries. In addition, the Fund may have to refund net premiums of \$57 million. There is currently no estimate of the cost to the Fund of implementing the *Dixie Fuel* decision nationwide. However, nationwide implementation would increase the projected deficit.

#### Transfer of General Revenue to the Fund

The final provision of the administration's proposal is to transfer general fund revenue to the Fund. The provision includes (1) a transfer of \$281 million in general revenue in annual installments from 2001 through 2008 and (2) an additional \$65 million in general revenue in annual installments for 2009 and 2010. This transfer of federal funds would significantly improve the financial position of the Fund. Figure 5 shows the projected annual operating shortfalls of the Fund if this provision is

enacted. Our analysis indicates that these transfers, by themselves, would reduce the projected accumulated deficit of the Fund from \$513 million to \$232 million in fiscal year 2008. However, by themselves, the transfers are not sufficient to ensure the Fund's solvency.

**Figure 5: Potential Operating Shortfalls of the Fund If the Administration's Proposal to Transfer General Revenue Funds Is Enacted (Dollars in Millions)**



### Summary

We considered five possible scenarios in our review as you requested. To review, if none of the provisions of the administration's proposal are enacted, the Fund faces a projected cumulative deficit of \$513 million in fiscal year 2008. If AML fees are extended, the projected cumulative deficit is reduced to \$450 million. If the provision to reverse the effects of *National Coal* is enacted, the projected cumulative deficit in fiscal year 2008 decreases to \$427 million. If both the AML extension and the provision to reverse the effects of *National Coal* are enacted, the projected cumulative deficit decreases to \$364 million. If only the provision to provide federal funds is enacted, the projected cumulative deficit decreases to \$232 million. And, finally, if all the provisions of the administration's proposal are enacted, the projected cumulative deficit of the Fund in fiscal year 2008 decreases to \$83 million. None of the projections include the potential cost of nationwide implementation of the *Dixie Fuel* decision as no estimate of that cost has been developed. However, full implementation of the decision would increase the projected deficit.

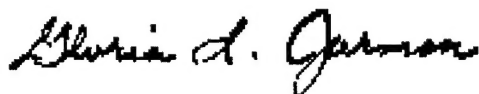
We are sending copies of this letter to the Honorable Daniel Moynihan, Ranking Minority Member Senate Committee on Finance, as well as, all of the other members of the Committee. We will make copies available to others upon request. We appreciate the opportunity to be of assistance. If you or your staff have any questions regarding the briefing or this letter, or if we can be of further assistance, please



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contact either me at (202) 512-4476, or Alana Stanfield, Assistant Director, at (202) 512-3197. I may also be reached by e-mail at [jarmong.aimd@gao.gov](mailto:jarmong.aimd@gao.gov). Key contributors to this assignment were Bonnie Derby, Suzanne Lightman, Ogbeide Oniha, and Jeffrey Jacobson.

Sincerely yours,

A handwritten signature in cursive script that reads "Gloria L. Jarmon".

Gloria L. Jarmon  
Director, Health, Education, and  
Human Services, Accounting and  
Financial Management

Enclosure

Enclosure

**Slides From the June 28, 2000, Briefing on  
the UMWA Combined Benefit Fund**



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**The United Mine Workers of America  
(UMWA) Combined Benefit Fund**

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**Analysis of the Administration's Proposal  
to Ensure Solvency**

Senate Committee on Finance  
June 28, 2000

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## Topics to be Discussed

- Objectives
- Scope and Methodology
- Background
- Impact of the Administration's Proposal
  - extending Abandoned Mine Land Reclamation (AML) fees
  - reversing effects of *National Coal v. Chater* (*National Coal*) decision
  - reversing *Dixie Fuel Company v. Social Security Administration* (*Dixie Fuel*) decision
  - determining necessary federal funds for solvency
- Conclusion



## Objectives

- Research the governance structure, operations, benefit structure, and current and projected financial position of the UMWA Combined Benefit Fund (the Fund)
- Analyze the impact of the Administration's proposal to:
  - extend AML fees
  - reverse the effects of *National Coal* decision
  - reverse the effects of *Dixie Fuel* decision
  - appropriate federal funds



**Objectives (cont.)**

- Determine the amount of federal payments needed to ensure the Fund's solvency through 2008 using available actuarial projections
  - if the Administration's proposal is fully enacted
  - if no sections of the Administration's proposal are enacted



## Scope and Methodology

- Interviewed Fund officials
- Conducted interviews with other affected parties
  - trade association
  - coal companies
  - collective bargaining entities
  - others
- Examined applicable statutes and regulations
- Reviewed audited financial statements and actuarial projections
- Did not independently verify underlying data or compute actuarial projections





## Scope and Methodology (cont.)

- Actuarial projections and assumptions were reviewed by independent actuaries for reasonableness.
- Conducted our work from March, 2000 through June, 2000 in accordance with generally accepted government auditing standards



## Background - The UMWA Combined Benefit Fund

- Governance structure of the Fund was created by the Coal Industry Retiree Health Benefit Act of 1992 (the Coal Act) to provide health benefits for retired coal miners and their dependents who were covered by two previously existing funds. The Coal Act
  - attributed funding responsibility to coal companies and, in some cases, successor companies, requiring them to pay yearly premiums on beneficiaries assigned to them.
  - mandated that interest from fees in the AML trust fund would be used to defray medical premiums of those beneficiaries who could not be assigned to an employing coal company.
  - required the transfer of \$210 million from the 1950 Pension Trust Fund to provide initial funding.



**Background - The UMWA Combined  
Benefit Fund (cont.)**

- instructed the Social Security Administration (SSA) to assign retired miners and dependents to responsible companies before October 1, 1993.



**Background - The UMWA Combined  
Benefit Fund (cont.)**

- Operations of the Fund are overseen by 7 trustees appointed as follows:
  - 2 individuals designated by UMWA
  - 1 individual designated by Bituminous Coal Operators Association (BCOA)
  - 1 individual designated by the three employers who
    - were not signatories to the 1988 National Bituminous Coal Wage Agreement, and
    - have the largest number of assigned beneficiaries
  - 3 individuals agreed to by the 4 designated trustees



## Background - The UMWA Combined Benefit Fund (cont.)

- The Fund is a multi-employer plan as defined by the Financial Accounting Standards Board in Financial Accounting Standard (FAS) 106 and:
  - has annual audits by independent auditors
  - produces annual actuarial projections of unfunded liability
- SSA calculates premiums as prescribed by the Coal Act, using the following factors:
  - a base premium, calculated using the expenses, federal reimbursements and beneficiary population of the plan year ending June 30, 1992
  - the change in the medical component of the Consumer Price Index (CPI) between the base year (ending June 30, 1992) and the year being calculated



## Background - The UMWA Combined Benefit Fund (cont.)

- The beneficiary population of the Fund is limited to those miners and their dependents who were receiving benefits from two pre-existing benefit funds at the time these funds were merged under the Coal Act to form the Combined Benefit Fund. According to Fund officials, the population is declining at an average rate of 7 percent per year.
- As of June 30, 1999, there were approximately 67,000 beneficiaries of which:
  - 81 percent are over the age of 70
  - 72 percent are female
  - 91 percent are covered by Medicare
  - over 60 percent live in Kentucky, West Virginia and Pennsylvania





## Background - The UMWA Combined Benefit Fund (cont.)

- The Fund offers comprehensive health care coverage which includes:
  - physician services
  - durable medical supplies
  - prescription medications
  - home health services
  - inpatient hospital services
  - mental health treatment
  - preventive care
  - surgery
  - treatment of illness or injury
  - certain other benefits



**Background - The UMWA Combined  
Benefit Fund (cont.)**

- Three significant court decisions have or may affect the Fund's financial position:
  - *National Coal Association v. Chater (National Coal)* (1996) concerned the calculation of health benefit premiums by the Commissioner of SSA. The 11th Circuit Court of Appeals ruled that SSA improperly accounted for Medicare reimbursements in health benefit premium calculations. As a result, all coal company health benefit premiums were reduced by approximately 10 percent.



## Background - The UMWA Combined Benefit Fund (cont.)

- *Eastern Enterprises v. Apfel (Eastern)* (1998) concerned whether assignments may be made to companies, considered "in business" under the Coal Act, but who were not signatories to 1974 or later National Bituminous Coal Wage Agreements. The Supreme Court ruled that Coal Act assignments to these companies were unconstitutional. One hundred and thirty-two coal companies and approximately 8,000 beneficiaries were affected by the decision as of February, 1993.



**Background - The UMWA Combined  
Benefit Fund (cont.)**

- *Dixie Fuel Company v. Social Security Administration (Dixie Fuel)* (1999) concerned the right of the Commissioner of SSA to make assignments of beneficiaries to coal companies after the deadline for assignments given in the Coal Act. The 6th Circuit Court of Appeals ruled that assignments of beneficiaries made after September 30, 1993 were invalid.
  - However, this ruling has not yet been implemented and is still the subject of litigation.
  - This ruling could potentially affect 247 coal companies and 10,000 beneficiaries.



## Background - The UMWA Combined Benefit Fund (cont.)

- The Fund's September 30, 1999 audited financial statements show a \$12.2 million cumulative deficit.
- In November, 1999, Congress appropriated an additional \$68 million in interest from the AML trust fund to allow the Fund to meet its fiscal year 2000 commitments.
- Due to that appropriation, the Fund is expected to have a positive fund balance of approximately \$1 million at September 30, 2000.
- An actuarial projection of the Fund dated April 10, 2000 predicts:
  - an accumulated deficit of approximately \$56 million by the end of fiscal year 2001 exclusive of borrowing costs.
  - an accumulated deficit of approximately \$513 million by fiscal year 2008 exclusive of borrowing costs.

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## Background - The UMWA Combined Benefit Fund (cont.)

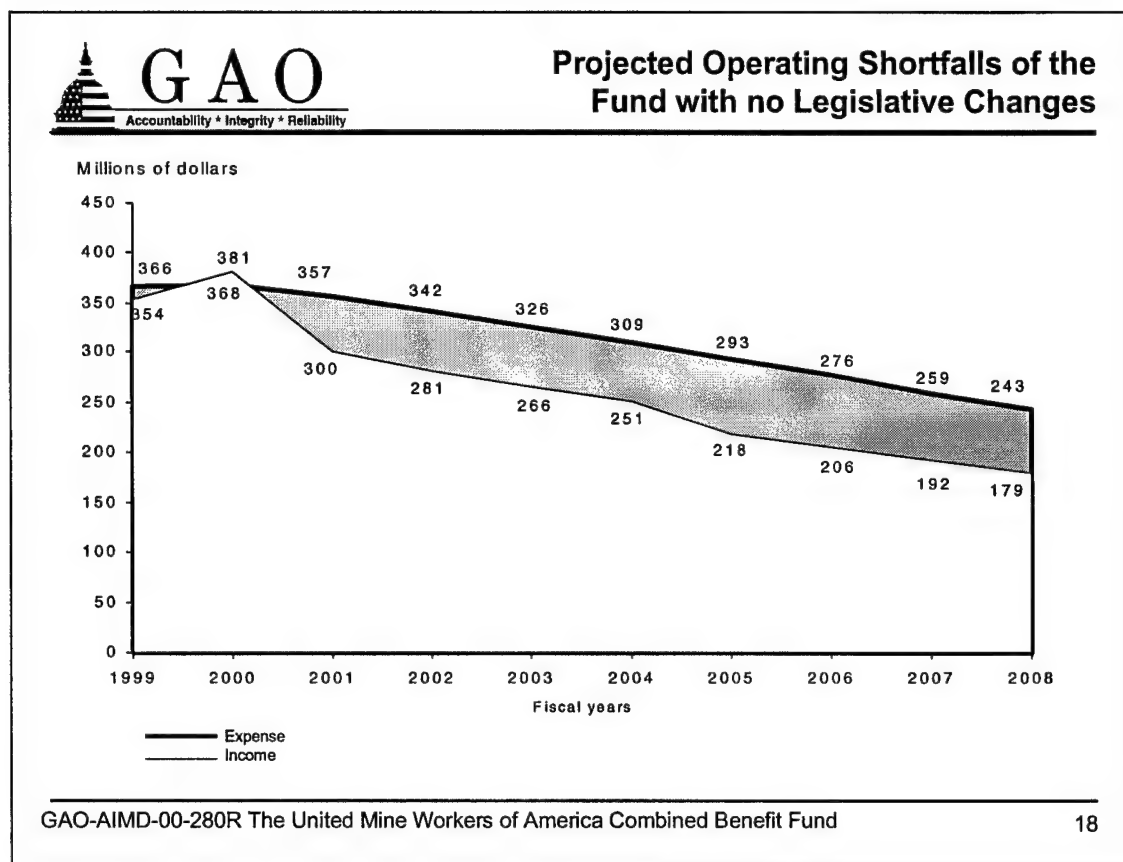
- The actuarial projections of the Fund assume that the Fund will borrow if income is insufficient to pay expenses and incur borrowing costs. We have eliminated these costs from our analysis as the purpose of the proposal is to eliminate possible shortfalls (excess of annual expenses over annual income).
- The following chart shows the Fund's projected operating shortfalls through fiscal year 2008 assuming that there are no changes in the current funding sources. Estimated fiscal year shortfalls are:

□ 2001 - \$57 million	□ 2002 - \$61 million
□ 2003 - \$60 million	□ 2004 - \$58 million
□ 2005 - \$75 million	□ 2006 - \$70 million
□ 2007 - \$67 million	□ 2008 - \$64 million

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## The Potential Impact of the Administration's Proposal to Extend AML

- The Administration is proposing to extend AML's authority to collect fees through September 30, 2014.
  - AML, authorized by the Surface Mining Control and Reclamation Act of 1977, provides for restoration of lands mined and abandoned prior to August 3, 1977.
  - AML funds its reclamation programs by fees paid by coal companies on each ton of coal mined.
  - Funds that are not used immediately for reclamation are invested in government securities and earn interest.
  - The Coal Act authorizes use of interest from AML fees to pay medical expenses and offset health premiums of beneficiaries who are not assigned to a coal company.
  - AML is scheduled to stop imposing fees on September 30, 2004.



**The Potential Impact of the Administration's  
Proposal to Extend AML (cont.)**

- According to the proposal, the current AML fee structure would be maintained.
- There are no changes in the statutory limitations on the use of AML interest by the Fund.
  - The Fund may only withdraw a maximum of \$70 million per year.
  - Any withdrawals by the Fund from the AML trust fund must be used to pay medical expenses and offset health benefit premiums for orphans.
  - Orphans are beneficiaries who are unable to be assigned to an employer either because the employer is no longer in business or has been relieved of liability by a legal decision.



## The Potential Impact of the Administration's Proposal to Extend AML (cont.)

- The extension of AML fee collection would potentially have a positive impact on the Fund's solvency. Projected accumulated deficit in fiscal year 2008 is reduced from \$513 million to \$450 million.
  - AML interest subsidizes the cost of the orphans by covering a portion of medical premiums, the coal companies cover any additional premium expense through their premium payments.
  - Currently, the AML fund generates average annual interest of \$61.8 million. There is \$227 million of accumulated interest in the AML fund as of May, 2000.
  - The Coal Act requires that the companies' premiums increase as the AML contribution decreases to cover orphan medical costs.

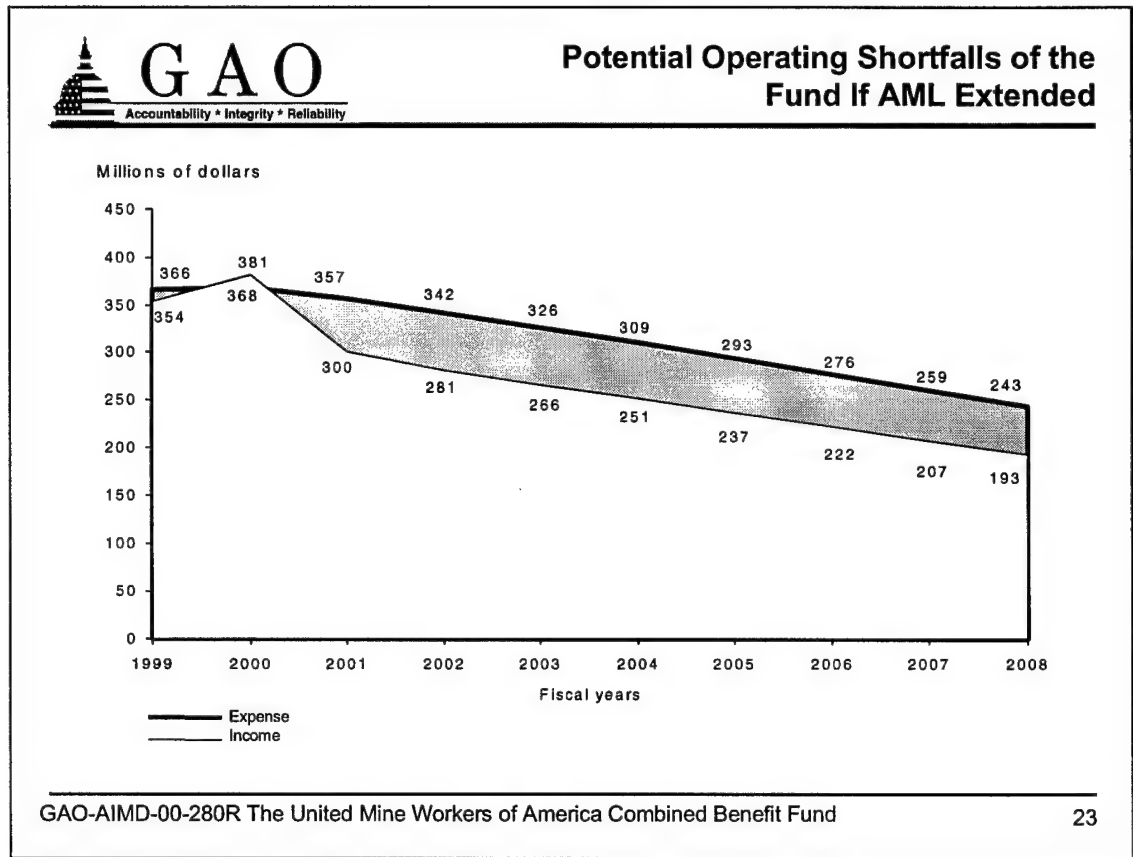


**The Potential Impact of the Administration's  
Proposal to Extend AML (cont.)**

- The following chart illustrates our analysis of the potential effect on the operating shortfalls of the Fund if the extension of the AML fees is enacted through fiscal year 2008.

Estimated fiscal year operating shortfalls would be:

▣ 2001 - \$57 million	▣ 2002 - \$61 million
▣ 2003 - \$60 million	▣ 2004 - \$58 million
▣ 2005 - \$56 million	▣ 2006 - \$54 million
▣ 2007 - \$52 million	▣ 2008 - \$50 million







**Potential Impact of Administration's Proposal  
to Reverse Effect of *National Coal***

- The Administration is proposing to reverse the effects of *National Coal* by changing the calculation of annual premiums in the Coal Act.
- The proposal sets a premium amount and year to serve as basis for future premium calculations:
  - base premium is \$2,791.42
  - base year is the plan year beginning October 1, 1999
- The proposed formula for the calculation of the annual premium is as follows:
  - base year premium x (current year medical care component of CPI - base year medical care component of CPI)
- The new calculation would become effective for all future fiscal years.

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**Potential Impact of Administration's Proposal to  
Reverse Effect of *National Coal* (cont.)**

- By itself, the change in the premium formula should improve the projected financial picture of the Fund, reducing projected accumulated deficit in fiscal year 2008 from \$513 million to \$427 million.
- If both the AML extension and the change in premium formula are enacted, the projected accumulated deficit in fiscal year 2008 is reduced to \$364 million.
- These two parts of the proposal will not ensure the solvency of the Fund.

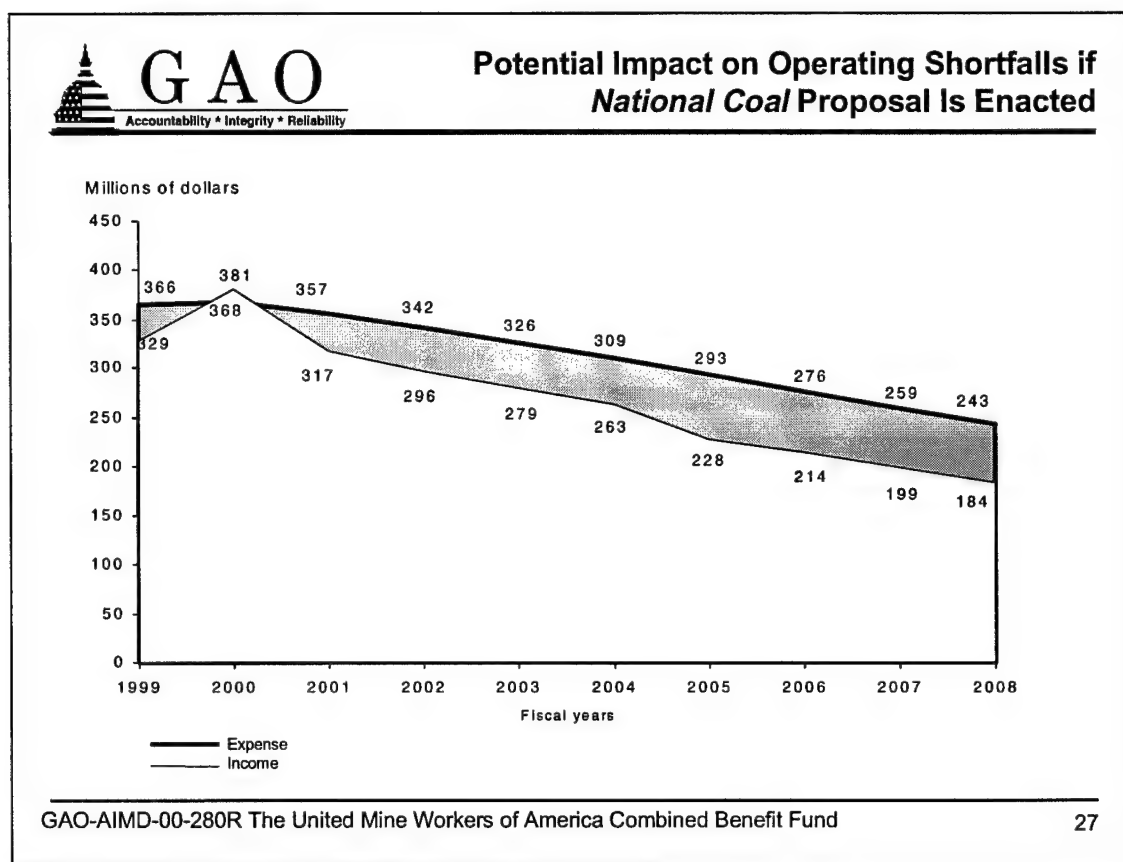


**Potential Impact of Administration's Proposal  
to Reverse Effect of *National Coal* (cont.)**

- The positive effect of the change in the calculation of premiums diminishes over time because premium income diminishes as the number of beneficiaries decreases.
- The following chart shows the potential effect on operating shortfalls of the Fund if the premium change is enacted.

Estimated fiscal year shortfalls would be:

▣ 2001 - \$40 million	▣ 2002 - \$46 million
▣ 2003 - \$47 million	▣ 2004 - \$46 million
▣ 2005 - \$65 million	▣ 2006 - \$62 million
▣ 2007 - \$60 million	▣ 2008 - \$59 million





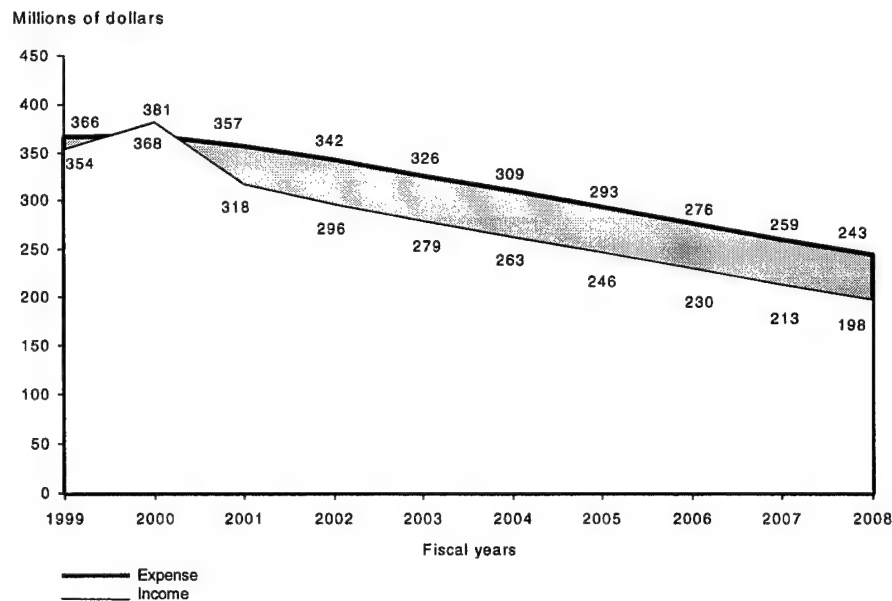
**Potential Impact of Administration's Proposal  
to Reverse Effect of *National Coal* (cont.)**

- The following chart shows the potential impact on the operating shortfalls of the Fund if both the AML extension and the premium change to reverse the effects of *National Coal* are enacted. The estimated fiscal year shortfalls are:

□ 2001 - \$40 million	□ 2002 - \$46 million
□ 2003 - \$47 million	□ 2004 - \$46 million
□ 2005 - \$47 million	□ 2006 - \$46 million
□ 2007 - \$46 million	□ 2008 - \$45 million



# Potential Impact of *National Coal* and AML on Operating Shortfalls of the Fund



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**Potential Impact of the Proposal to  
Reverse the Effects of *Dixie Fuel***

- The Administration is proposing legislation to eliminate the potential effects of the *Dixie Fuel* decision.
- The proposal would amend the Internal Revenue Code to eliminate the deadline of October 1, 1993, and thereby grant SSA authority to assign beneficiaries at any time. This authority would be retroactive to when the relevant Internal Revenue Code provision was enacted by the Coal Act.
- However, the *Dixie Fuel* ruling has not yet been implemented and is still the subject of litigation.



**Potential Impact of the Proposal to  
Reverse the Effects of *Dixie Fuel* (cont.)**

- As previously mentioned, the potential impact of the implementation of *Dixie Fuel* includes:
  - beneficiary assignments would be negated for 247 coal companies
  - 10,000 beneficiaries would retroactively become unassigned orphans. As a result of the increased number of orphans, there would be an increased need for AML interest to cover their medical costs.





**Federal Funds Needed to Ensure the  
Fund's Solvency Through 2008**

- The Administration is proposing to transfer general fund revenue to the Fund. The proposal includes:
  - a transfer of \$281 million in general revenue in annual installments from 2001-2008
  - an additional \$65 million in general revenue in annual installments in 2009 and 2010
- The transfer of the federal funds would significantly improve the position of the Fund. By itself, the transfer reduces the projected accumulated deficit of the Fund from \$513 million to \$232 million in fiscal year 2008.
- However, the transfer of federal funds, as proposed by the Administration, by itself is not sufficient to ensure the Fund's solvency.



**Federal Funds Needed to Ensure the  
Fund's Solvency Through 2008 (cont.)**

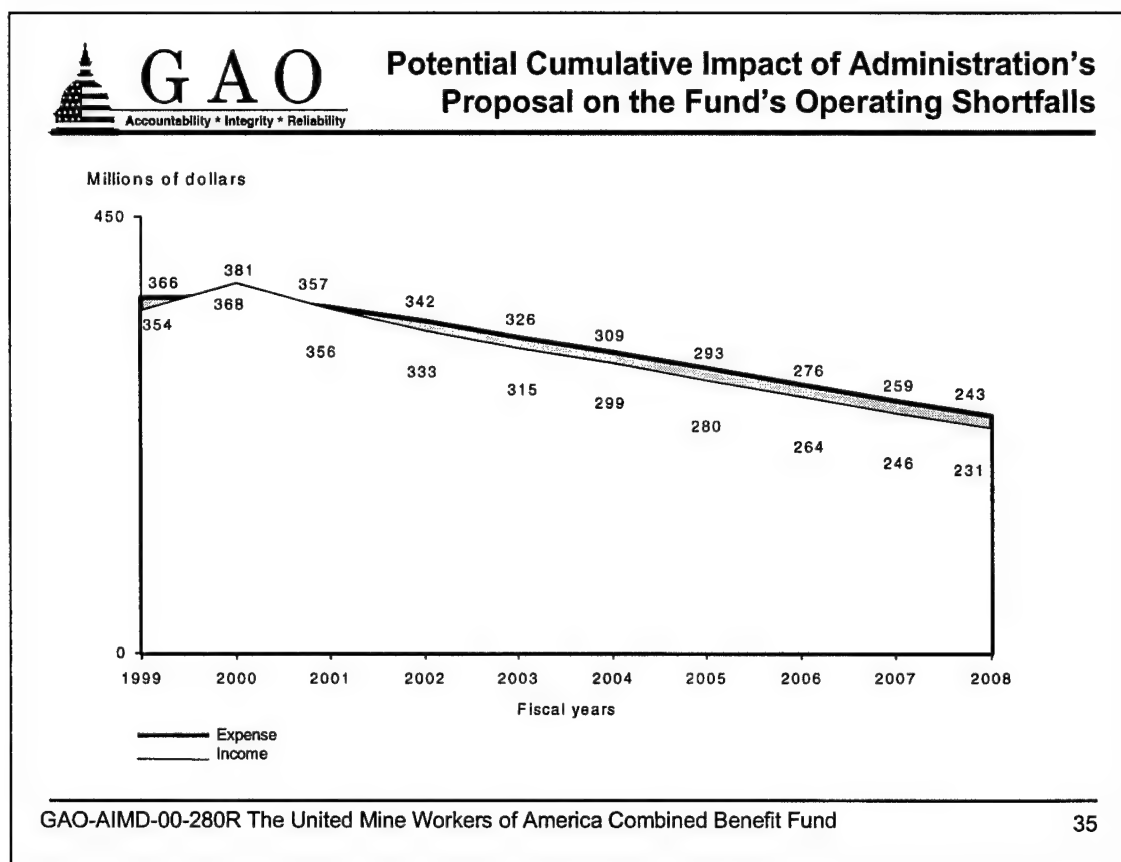
- If all the provisions of the Administration's proposal are fully enacted, the projected accumulated deficit of the Fund in 2008 would decrease from \$513 million to \$83 million.
- The Administration's proposal includes the following provisions:
  - extension of the assessment of AML fees
  - a change in the calculation of premiums to reverse the effects of *National Coal*
  - transfer of general revenue to the Fund
- The proposal also includes a provision to prevent the *Dixie Fuel* decision from affecting the Fund. However, as the ruling has not taken effect, there is no current financial impact on the Fund.



**Federal Funds Needed to Ensure the  
Fund's Solvency Through 2008 (cont.)**

- The following chart shows the potential impact on the yearly operating shortfalls of the Fund if all the provisions of the Administration's proposal are enacted. The estimated fiscal year shortfalls are:

□ 2001 - \$2 million	□ 2002 - \$9 million
□ 2003 - \$11 million	□ 2004 - \$11 million
□ 2005 - \$13 million	□ 2006 - \$13 million
□ 2007 - \$13 million	□ 2008 - \$12 million





**Federal Funds Needed to Ensure the Fund's Solvency Through 2008 (cont.)**

- If the Administration's proposal is not adopted, the federal government potentially would have to supply \$513 million over the next 8 years to ensure that the Fund will be solvent in 2008, assuming that the *Dixie Fuel* decision is not implemented.
- If *Dixie Fuel* is implemented, the Fund may have to refund an estimated net \$57 million in premiums to coal companies and would have to find funding for 10,000 beneficiaries who would become orphans. This would increase the Fund's accumulated deficit. The cost of the implementation is not included in the \$513 million projected accumulated deficit.



## Conclusion

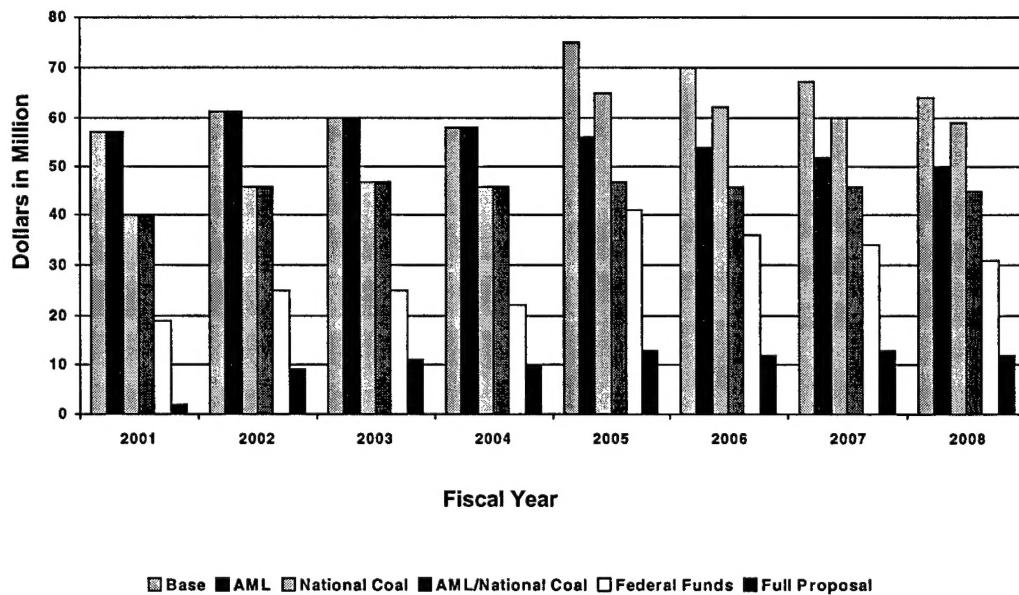
- According to our review of available financial data, while the Administration's proposal improves the projected financial position of the Fund, reducing the anticipated deficit in fiscal year 2008 from \$513 million to \$83 million, it does not ensure the solvency of the Fund.
- Additional funds will be needed to ensure the solvency of the Fund. The following charts show the projected comparative annual shortfalls and cumulative deficits of the Fund under the different scenarios.



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Accountability \* Integrity \* Reliability

## Comparison of the Fund's Potential Annual Shortfalls Under Various Proposals

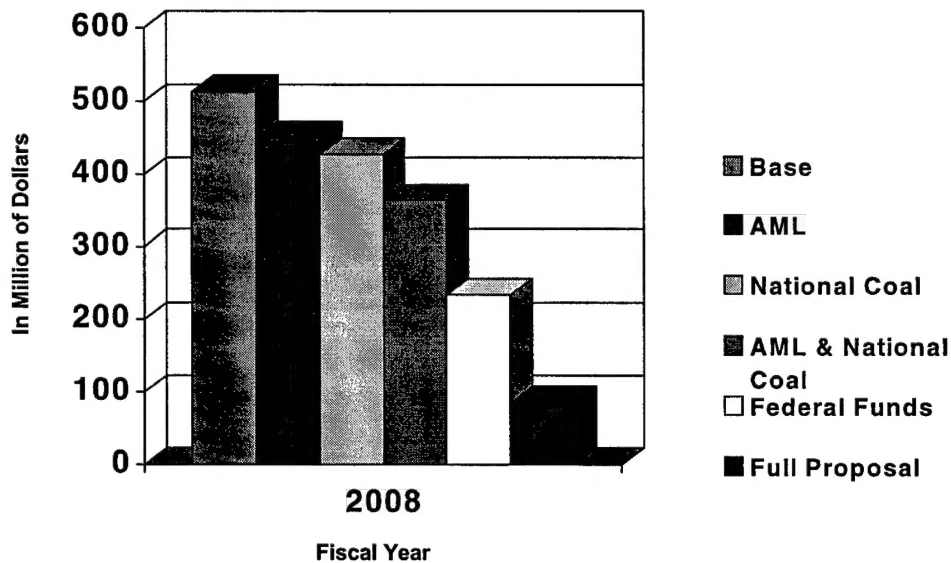


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### Comparison of Potential Cumulative Deficits in FY 2008 Under Various Proposals



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